This couple must stop money from slipping through fingers

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Suzie and Saul are professionals in their early 40s with two children, age three and six.

He earns about $154,000 a year plus bonus, while she makes about $40,000 a year working part time in health care. He has a defined contribution pension plan at work, while she has just begun contributing to a defined benefit pension plan.

Saul's contract is drawing to a close soon so he'll be looking for new work. Anticipating a move, they put their house on the market last summer and sold it within two weeks. They are now renting.

The $120,000 net proceeds of the house sale left them feeling flush.

"Other than a credit card balance, which gets paid monthly, we are debt free," Suzie writes in an e-mail. Even so, money seems to be slipping through their fingers.

"We do not have any education funding started for our children, and we have never maximized our RRSP contributions," Suzie writes. She will need a new car before long. Longer term, they own an acre of waterfront property on which they hope to build one day.

Once Saul finds work, they plan to buy a house for $300,000 to $500,000 in their new location.

"I know we are in a position that would be of envy to most," Suzie says, "but we are wondering what we could or should do that will be of most benefit to us."

We asked Sheila Walkington, co-founder of Money Coaches Canada in Vancouver, to look at Suzie and Saul's situation.

What the expert says
With changes afoot, this is a great time for Suzie and Saul to revisit their finances and get on track financially, Ms. Walkington says.

"They would be wise to start with a spending and savings plan they can stick to without adding to debt," she adds. Her recommendations allow them to address a number of goals.

First, they buy a house in the $400,000 range with a 20-per-cent down payment to avoid mortgage insurance fees. This would leave them with $40,000 to top up their RRSPs, save for their children's education and set some money aside.

They could contribute $20,000 to Saul's RRSP for 2013, whittling down his unused contribution room. Then they could stash $10,000 in a registered education savings plan for the children. (They're allowed to catch up by making two years of contributions, or $5,000 for each child.) They can set aside the remaining $10,000 for moving and closing costs on their new home.

If Saul gets a $20,000 bonus for 2013, he should put the full after-tax amount in his RRSP, Ms. Walkington says. He could then use the tax refund to top up their savings for their other goals – such as buying a new car for Suzie in a year or two or building on their waterfront property.

Next step is to set up a monthly saving and spending plan. They could contribute $400 a month to the children's RESP and $1,000 a month to Saul's RRSP.

"This can be re-evaluated once Saul secures a new job and knows what his salary and benefits will be," Ms. Walkington says.

Then they need to get a better handle on where their discretionary income is going. They can do this by setting up a number of special-purpose bank accounts.

One could be for fixed monthly costs such as rent or mortgage payments, utilities, day care and RRSP and RESP contributions (planner estimates $4,700 a month). A second could be for such things as groceries, dining out, entertainment and drinks ($1,500 a month).

The rest could go to one or more savings accounts for lump-sum or annual payments such as car repairs, travel, gifts and children's activities ($2,820), for total monthly spending of $9,020 – equal to their current monthly payout.

"Suzie has a pretty good idea of where most of their money goes, but admits there is at least $1,000 of slippage each month that goes to online shopping and overspending," Ms. Walkington says. She thinks the number is likely higher – up to $2,000 in the months when Suzie takes on extra shifts.

"The choice is theirs to get on a plan now and reap the benefits of saving for the things they want," the planner says. If they can curb their spending and stick to the plan, there should be at least an extra $1,000 a month to save – more if Suzie works extra shifts. This money can go directly to saving for the new car or building on their waterfront property, the planner says. "This way, there is an incentive to take on extra work if they want to reach these goals."

Client situation

The people
Suzie, 44, Saul, 41, and their two children, 3 and 6.

The problem
Figuring out whether they should use the entire proceeds of their house sale on a new home or set some aside for children's education and retirement savings.

The plan
Buy a new house for $400,000 with 20-per-cent down, and divide the rest among an RESP, Saul's RRSP and a moving or emergency fund. Set up a saving and spending plan to rein in overspending and redirect money to car purchase and building on waterfront property.

The payoff
A solid financial footing for the long term.

Monthly net income
$10,020

Assets
Proceeds from house sale $120,000; his DC company pension plan $225,000; spousal RRSP $36,000; his locked-in retirement savings plan $20,000; her locked-in retirement savings plan $133,220; and waterfront property $65,000; Total: $599,220

Monthly disbursements
Rent $1,800; property tax $65; property insurance $150; transportation $830; groceries $1,000; child care $800; clothing $380; gifts, charitable $425; vacation, travel $800; personal discretionary (grooming, dining, drinks, entertainment, clubs, sports) $990; dentists, drugstore $80; telecom, TV, Internet $300; credit cards (paid monthly) $1,400. Total: $9,020

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